

## *Financially Speaking*

### **Understand I Bond Rules Before You Buy**

As I look back at my career in investing one of the things that I wish I had done was to keep an annual journal of the big events that occurred each year, how the investment markets performed and – most importantly to me – how clients reacted to all of it. Over the years I've developed quite an interest in Behavioral Finance, which studies the psychology of how people relate to money, and I really wish that I could go back now and reflect in more detail on what the prevailing theme of conversations were based on market and global events at the time.

Having as much perspective as I do, I haven't been surprised at all by most of the questions and conversations that I've been having with people this year. Any time that the investment markets are volatile and the economic environment is uncertain people become worried and it is totally natural to look for assurance and guidance.

In my experience, it seems that there is almost always some alternative investment that people ask me about when stocks and bonds have a volatile year. Over the years I've heard the case for real estate ("they don't make more of it"), gold (remember the home gold sale parties?) and even stockpiling paper cash (never mind the fire risk I guess?). The thing is, there may well be a good reason for owning some of these things but, as I've explained over time, there is no such thing as a magic investment that has no risk and high reward.

This year the investment theme has been the Series I Savings Bond (I Bond).

Like other savings bonds, I Bonds are issued by the US government but what makes them different is that the interest rate they pay is partially tied to inflation. Because of that there was a 6 month window of time this year when the advertised interest rate that they paid was 9.62%. Many people read that and stopped right there, never reading any of the rest of the details before deciding that they should own them.

I think a number of people were surprised when I would share more information with them about I bonds. For example, I Bonds aren't something that I can buy for them in their brokerage account and they can't go to their bank to buy them either. I Bonds can only be purchased directly from the US Treasury by setting up an account on-line with them. Purchases are also limited so each individual can only buy \$10,000 of them per year.

I Bonds are also not a saving account. Savings Bonds, including I Bonds, are intended to be held for 30 years. You can choose to cash one in early but only after you have held it for a minimum of 12 months and if you cash in an I Bond that you have owned for less than 5 years you lose your last 3 months of interest as a penalty for doing so.

You may well feel that the restrictions and extra effort needed to purchase them are worth it in exchange for the interest rate that they pay – but here too you need to be sure to read beyond the headline. The interest rate that I Bonds pay is actually comprised of two rates: a fixed rate and an inflation rate. The fixed rate is set for the entire 30 years at the time you purchase the bond. The inflation rate adjusts every 6 months throughout the life of the bond.

People that purchased I Bonds prior to October 31<sup>st</sup> of this year did receive a rate of 9.62%, but only for 6 months. The fixed rate on their bonds is actually 0.0% so after their initial 6 month period their bonds will only earn interest based on what inflation is at the time.

I Bonds that are purchased today are paying 6.89% for 6 months, which is comprised of a 0.4% fixed rate and 6.49% inflation rate. If the Federal Reserve continues to see progress towards its stated goal of lowering inflation the rate that I Bonds pay would likely continue to decline as well.

I Bonds may well make sense for many people to own and they may be something that you want to consider yourself. Just make sure that if you are interested that you understand the fine print before you proceed. If you want more information go directly to the source and check out <https://www.treasurydirect.gov/savings-bonds/i-bonds/>.

*Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties which are difficult to predict. Past performance is not indicative of future results. All indices are unmanaged, and investors cannot invest directly into an index. Diversification does not ensure against market risk.*

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